

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05
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COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 L-03 H-01 PA-01 MMO-01 /097 W
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R 031055Z JUL 78
FM AMEMBASSY ANKARA
TO SECSTATE WASHDC 2480
INFO AMEMBASSY BRUSSELS
AMEMBASSY BONN
AMEMBASSY PARIS
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
AMCONSUL ISTANBUL
AMCONSUL IZMIR
AMCONSUL ADANA

C O N F I D E N T I A L SECTION 1 OF 3 ANKARA 4887

USOECD

USEEC

E.O. 11652 GDS
TAGS: EFIN, ECRP, TU
SUBJ: CERP 0102: TURKS ASK U.S. GUARANTY OF \$500 MILLION LOAN FROM BI
S

REF: (A) ANKARA 4633, (B) STATE 85757, (C) ANKARA 1051,
(D) STATE 160766

SUMMARY: EMBASSY RECOMMENDS USG GIVE SERIOUS CONSIDERATION
TO TURKISH REQUEST THAT WE PARTICIPATE IN GUARANTY OF \$500
MILLION LOAN FROM BANK OF INTERNATIONAL SETTLEMENTS. OUR
ANALYSIS OF TURKEY'S 1978 BALANCE OF PAYMENTS PROSPECTS
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INDICATES THAT FINANCING OF THIS MAGNITUDE WILL BE REQUIRED
FOR TURKEY TO MEET LEVEL OF IMPORTS NECESSARY TO MAINTAIN
ADEQUATE INDUSTRIAL PRODUCTION. FAILURE TO ACHIEVE THIS
ADDITIONAL FINANCING COULD LEAD TO DETERIORATING SOCIAL AND
POLITICAL CONDITIONS. TIMING IS CRITICAL AS TURKEY'S
NEEDS ARE ACUTE DURING THE NEXT TWO MONTHS. TURKISH
SITUATION MAY HAVE REACHED THE POINT WHERE THE COUNTRY

REQUIRES SPECIAL HELP IT IF IS TO AVOID SOCIAL DISRUPTION
AND STICK TO ITS IMF BACKED STABILIZATION PROGRAM. ACTION
REQUESTED: REQUEST URGENT USG CONSIDERATION OF MODALITIES
BY WHICH WE MIGHT ASSIST TURKEY TO GET NEEDED FINANCING.
END SUMMARY.

1. EMBASSY RECOMMENDS THAT USG GIVE SERIOUS CONSIDERATION TO
PARTICIPATING IN GUARANTY OF \$500 MILLION LOAN WHICH TURKISH
GOVERNMENT IS SEEKING FROM BANK FOR INTERNATIONAL SETTLEMENTS
(BIS) (REF A). TURKISH TREASURY EXPECTS DEFICIT IN BASIC
BALANCE THIS YEAR OF SOME \$494 MILLION WITHOUT SUCH A LOAN,
EVEN ASSUMING THAT PRIVATE BANKS WILL DISBURSE \$500 MILLION
IN FRESH MONEY.

2. EMBASSY'S OWN ASSESSMENT OF BALANCE-OF-PAYMENTS OUTLOOK
FOR THIS YEAR (SEE PARA 10 BELOW) BEARS OUT THE NEED FOR ABOUT
\$500 MILLION IN ADDITIONAL FINANCING. EXPORTS ARE NOT GOING
TO REACH THE GOT TARGET OF \$2.450 BILLION AND THE TRADE
DEFICIT COULD HIT \$3 BILLION, ASSUMING IMPORTS, ABNORMALLY
LOW IN THE FIRST FOUR MONTHS DUE TO NO PETROLEUM IMPORTS IN
JANUARY AND MARCH, PICK UP TO TARGETED LEVEL. AN INVISIBLES
SURPLUS OF ONLY ABOUT \$545 MILLION, HELD LOW LARGELY BECAUSE
OF SLUGGISH WORKER REMITTANCES, COULD LEAVE A CURRENT
ACCOUNT DEFICIT OF \$2.455 BILLION. THE CAPITAL BALANCE
COULD BE HEALTHY \$825 MILLION, DUE IN PART OT LOW FOREIGN
DEBT REPAYMENT REQUIREMENTS AS A RESULT OF DEBT CONSOLIDATIONS.
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THIS FIGURE ALSO ASSUMES HIGHER DISBURSEMENTS OF PROJECT CREDITS
THAN LAST YEAR BUT THE ASSUMPTION DEPENDS ON THE UNCERTAIN
PROSPECT OF TURKEY FINDING THE FOREIGN EXCHANGE NEEDED FOR
REQUIRED DOWN PAYMENTS ON CREDITS PREVIOUSLY APPROVED. THE
OVERALL DEFICIT MIGHT REACH AT LEAST \$1.630 BILLION. AVAIL-
ABLE FINANCING WILL BE INADEQUATE TO FILL THE GAP. IN
EMBASSY'S JUDGMENT, THE TURKS MUST RAISE ANOTHER \$500
MILLION OR MORE TO FINANCE THE ANTICIPATED DEFICIT.

3. THE PROBLEM IS ONE OF TIMING AS WELL AS OF AMOUNT OF
ADDITIONAL FINANCING TO BE RAISED. AT THE MOMENT THE GOT
HAS NO MORE FUNDS AVAILABLE TO MEET ITS FOREIGN PAYMENTS
NEEDS THAN IT HAD BEFORE IT SIGNED A STANDBY AGREEMENT
WITH THE IMF. IT HAS FULLY USED THE \$150 MILLION DISBURSED
SO FAR BY THE FUND. IT CAN EXPECT ONLY \$50 MILLION MORE
FROM THE FUND THIS YEAR BUT NOT BEFORE AUGUST 25 AND ONLY
IF IT REMAINS IN COMPLIANCE WITH IMF STANDBY CONDITIONS.
IBRD IMPORT-FINANCING LOAN OF \$100 MILLION, EMBASSY
UNDERSTANDS, WILL NOT BE AVAILABLE UNTIL SEPTEMBER AFTER IMF
DETERMINES WHETHER GOT IS ELIGIBLE FOR A FURTHER DISBURSEMENT.
USG SECURITY SUPPORTING ASSISTANCE, IF AUTHORIZED BY CONGRESS,
WOULD NOT BE AVAILABLE UNTIL SOME TIME AFTER BEGINNING OF NEXT

FISCAL YEAR ON OCTOBER 1. TURKS EXPECT FULL DISBURSEMENT OF \$100 MILLION IN IMPORT FINANCING FROM LIBYA THIS MONTH. PRIVATE INTERNATIONAL BANKS ARE FAIRLY SURE OF BEING ABLE TO PROVIDE \$375-400 MILLION IN NEW MONEY TO THE TURKS, PROBABLY NOT ALL OF IT THIS YEAR; DISBURSEMENTS ARE NOT LIKELY TO BEGIN BEFORE FALL, LOAN BANK REP INVOLVED IN PUTTING THIS CREDIT TOGETHER ADMITS TOTAL IS UNLIKELY TO REACH \$500 MILLION ASKED BY TURKS.

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LAB-04 SIL-01 L-03 H-01 PA-01 MMO-01 /097 W
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SMALL FRG CREDIT OF APPROXIMATELY \$25 MILLION (DM 50 MILLION) IS NEARLY ALL DISBURSED; GERMAN BUNDESTAG MAY APPROVE AN ADDITIONAL DM 100 MILLION IN JULY ON WHICH DISBURSEMENTS COULD POSSIBLY BEGIN IN AUGUST AT EARLIEST. OUTLOOK FOR NEW FUNDS OVER JULY, AUGUST, AND SEPTEMBER IS THEREFORE POOR; LITTLE IN THE WAY OF NEW CREDITS APPEARS CERTAIN. IT IS THIS SEVERE SUMMER FOREIGN EXCHANGE DROUGHT THAT THE GOT IS ATTEMPTING TO OVERCOME THROUGH ITS APPLICATION FOR A BIS CREDIT. THE PROBLEM AT HAND IS TO OBTAIN BRIDGE FINANCING THAT WILL PERMIT THE GOT TO MAINTAIN FINANCIAL ORDER IN THE SHORT TERM AND PREVENT AN UNDERMINING OF THE IMF AGREEMENT AND OF THE BANKING ARRANGEMENTS FLOWING FROM IT THAT ARE EXPECTED TO BE REALIZED IN THE FALL.

5. TURKEY CAN DO LITTLE IN THE SHORT TERM TO INCREASE ITS FOREIGN EARNINGS. IT COULD, THEORETICALLY, CUT ITS EXPENDI-
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TURES TO FIT THEM. IN THE PROCESS IT WOULD FOUNDER IN SHORTAGES OR ALTERNATIVELY ACCUMULATE NEW ARREARS PROHIBITED BY THE FUND. IT MIGHT LOSE MOST OF THE CREDITS IT HAS LINED UP FOR THE END OF THE YEAR, SEE ITS RESCHEDULING EXPECTATIONS UNDONE, AND LEARN THE HARD WAY THE PLANNING LESSONS THAT IT HAS ALWAYS AVOIDED.

6. THERE ARE LESS CATAclySMIC WAYS FOR TURKEY TO MAKE NEEDED ECONOMIC ADJUSTMENTS THAN THROUGH DRASTIC, FORCED DEFLATION. THERE ARE ALSO FACTORS THAT MAKE SUCH AN ECONOMIC WRINGING-OUT BOTH SOCIALLY AND POLITICALLY UNDESIRABLE. THERE WOULD BE SOME DIRECT PHYSICAL DEPRIVATION. THE SOCIAL COSTS COULD BE HIGH IN A COUNTRY WHERE YOUTHS ON THE RIGHT AND THE LEFT ARE DISCONTENT AND SEARCHING FOR CAUSES. SEVERE ECONOMIC DEFLATION COULD CERTAINLY WEAKEN THE ECEVIT GOVERNMENT. IF THE ECEVIT GOVERNMENT FELL, IT IS NOT LIKELY THAT A POSSIBLE ALTERNATIVE GOVERNMENT COULD COPE MORE EFFECTIVELY WITH THE COUNTRY'S INHERITED ECONOMIC PROBLEMS.

7. WE MAY BE FACING A SITUATION IN WHICH TURKEY WILL HAVE TO BE TREATED AS A COUNTRY REQUIRING SPECIAL HELP. THE IMF HAS CLEARLY ACKNOWLEDGED THAT TURKEY'S ABILITY TO STICK TO ITS PROGRAM DEPENDS ON A FACTOR OUTSIDE TURKEY'S DIRECT CONTROL -- THE AVAILABILITY OF FOREIGN CREDITS. TURKEY IS HAVING TROUBLE GETTING THESE CREDITS NOW. ITS ECONOMIC STABILIZATION PROGRAM IS IN DANGER.

8. UNLESS TURKEY PUTS UP GOLD AS COLLATERAL, THERE IS NO IRON-CLAD CERTAINTY THAT IT CAN REPAY A BIS CREDIT IN THE NEAR FUTURE. MIDDLE EASTERN VALUES BLOCK THE GOVERNMENT FROM THIS COURSE. GOLD, BALUED AS THE STORE OF LAST RESORT, SOLD OR USED AS COLLATERAL, WOULD OPEN THE ECEVIT GOVERNMENT TO CHARGES OF MISMANAGEMENT AND DISSIPATION OF THE NATIONAL
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WEALTH. TURKISH OFFICIALS WOULD BE HARSHLY BLAMED BY A LARGE PART OF THE POPULATION AND THE MATTER COULD EASILY LEND ITSELF TO POLITICAL ATTACKS ON THE GOVERNMENT.

9. ACTION REQUESTED: THE EMBASSY INQUIRES WHETHER THERE MAY NOT BE SOME WAY FOR THE USG JOINTLY WITH OTHER TO

GUARANTEE THE BIS LOAN IN THE ABSENCE OF A GOLD COLLATERAL.
WE WOULD APPRECIATE RECEIVING FROM THE DEPARTMENT A DISCUSSION
OF THE CONSIDERATIONS THAT MIGHT BE INVOLVED FROM THE
U.S. POINT OF VIEW.

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C O N F I D E N T I A L SECTION 3 OF 3 ANKARA 4887

10. THE FOLLOWING ARE THE EMBASSY'S CURRENT BALANCE-OF
PAYMENTS PROJECTIONS FOR 1978:

(\$ MILLIONS)

A. TRADE ACCOUNT

EXPORTS	2,000
IMPORTS	5,000
TRADE DEFICIT	- 3,000

B. INVISIBLES ACCOUNT

WORKER REMITTANCES	900
TOURISM (NET)	35
INTEREST PAYMENTS	
PUBLIC DEBT	- 200
DEBT CONSOLIDATED BY BANKS	- 310

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PROJECT CREDITS	- 35
PROFIT TRANSFERS	- 85
IMPORTS WITH WAIVER	100
OTHER INVISIBLES	140

INVISIBLES BALANCE	545
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CURRENT BALANCE	- 2,455
(A PLUS B)	

C. CAPITAL ACCOUNT

AMORTIZATION PAYMENTS

PUBLIC DEBT	- 150
DEBT CONSOLIDATED BY BANKS	0
PROJECT CREDITS AND SUPPLIERS' CREDITS	600
ACCEPTANCE CREDITS (NET)	300
PRIVATE FOREIGN CAPITAL	75

CAPITAL BALANCE	825
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OVERALL DEFICIT	- 1,630
(A PLUS B PLUS C)	

D. FINANCING

USE OF RESERVES	0
IMF	200
IBRD IMPORT FINANCING	100
USG SECURITY SUPPORTING ASSISTANCE	50
LIBYA IMPORT FINANCING	100
LIBYA OIL CREDIT	60
FR GERMANY	25
PRIVATE BANKS	400
DRESDNER BANK	186

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TOTAL FINANCING AVAILABLE	1,121
PAYMENTS GAP	- 509

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Message Attributes

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TAGS: EFIN, ECRP, ECON, TU, US
To: STATE
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